Henry George News

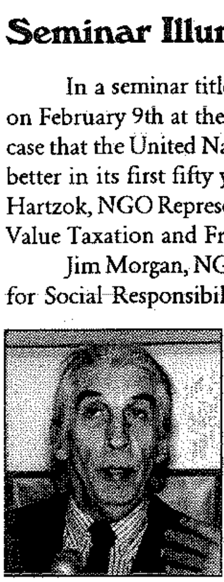
Volume 60, Number 1 January - February 1996

Seminar Illuminates UN's Successes

By Lindy Davies

In a seminar titled "In the Line of Fire: the UN at 50," given on February 9th at the NY-HGS, three speakers made a convincing case that the United Nations has strongly changed our world for the better in its first fifty years, and should continue to do so. Alanna Hartzok, NGO Representative for the International Union for Land Value Taxation and Free Trade, chaired the program.

Jim Morgan, NGO representative of Architects and Designers for Social Responsibility, summed up the UN's successes in five major categories, which he listed, Letterman-style, in reverse order: **5. The UN commitment to human development and culture has enriched us all.** Without the work of the UN, human rights could never have become the major world issue that it is today; international tensions would have driven it right off the table. **4. UN specialized agencies have literally changed the world.** The list of agencies working around the world is long. In the wealthy US, we have a tendency to forget that poorer nations sorely need the help provided by such agencies as the FAO (Food & Agriculture Association), WHO (World Health Organization) and UNEP (United Nations Environmental Program. **3. The UN has an unparalleled record of peacekeeping and democratization.** A long record of success in these areas was highlighted by the UN's major role in the peaceful change of regime in South Africa. **2. The UN played a major role in keeping the cold war cold.** In spite of resistance from the United States – the source of 75% of all the world's weapons exports today – international treaties on nuclear and chemical arms would have been all but unthinkable outside of the UN's framework.



Jim Morgan

But most important: **1. The UN has survived the cold war – not the other way around.** "Now some might call that a silly statement," he continued. But he noted that the UN's predecessor, the League of Nations, died after 16 years, never having gained the support of the US Congress – and was unable to muster the support to stop Italy's incursion into Ethiopia. Had an international organization with the scope and respect of the UN existed in the late 30s, it is quite possible that World War II could have been averted.

The 1990s has seen the UN's peacekeeping challenge grow in many ways. In some two years, the UN's peacekeeping operations grew from 20,000 troops operating in three places, to a total of 80,000 troops in seventeen places – all at a time when the UN's funding was decreasing. Additionally, the UN must come to terms with its proper role in struggles which, however brutal, nevertheless happen inside the boundaries of sovereign nations – and hence outside of the UN's jurisdiction.

Ann Zanes

The General Assembly, Morgan said, despite all its difficulties and problems, "really does function as the voice of the world's people. Each of the major UN conferences, which Ann Zanes will tell you about, grew out of a Resolution made by the General Assembly."

Ann Zanes, who serves as a Board Member of the Communications Coordination Committee of the UN, *(continued on page six)*

Henry George School Offers Solutions to Deepening Urban Decay

By David Domke

The *New York Times* recently reported the results of a five-year study by the Regional Plan Association which predicts a dire future for the New York metropolitan region. Looking ahead to the year 2020, the report predicts "a bleak landscape of crumbling urban cores, increasingly isolated wealthy enclaves, transportation paralysis, deteriorating air and water quality and feeble economic growth," unless the region immediately begins a massive project to improve transportation, provide better education and starts to rejuvenate urban areas. The *Times* quotes H. Claude Shostal, the association's President: "It may be the last opportunity we have."

The report offers an alternative vision, based upon the possibility that the region's citizens and politicians will "summon the will and resources to begin a multi-billion dollar campaign" to effect changes that the report says are critical to the region's socio-economic future. In this scenario, "residents zip about in high-speed trains on a fully interconnected regional rail system... the aging urban centers have been recaptured as places to live, work and play and lifelong education and job banks connect the population to new opportunities in the global economy."

Dr. Kris Feder

In previous reports the Regional Plan Association, the oldest urban planning group in the U.S. and whose board of directors "move in the upper circles of the region's business and politics," according to the *Times*, had recommended measures to manage the regions "uncontrolled" growth. Now, according to Gary C. Wendt, the association's chairman, "the issue is no longer how to manage growth, but how to find growth to manage." New York, he said, is no longer a "tireless colossus, building and rebuilding itself through some untended growth machine. Our success is no longer guaranteed."

The only seemingly new perspective on taxation is a "flat" one; perhaps a fresh, three-dimensional view is needed.

The cost of this revitalization? According to the association – $75 billion over the next 25 years; $25 billion of that just for the 25 new miles of track needed to interconnect the various existing train systems throughout the region. Significantly, the *New York Times* article said that while all three governors of the tri-state region and Mayor Giuliani said "generally supportive things" about the report's recommendations, "none embraced any new system of taxation to raise money" to implement the needed changes.

Such a massive influx of revenue would have to come from somewhere, of course. But with major cities still reeling from the recession, and suffering both a diminishing tax base and the partial withdrawal of federal funds, how might this come about? In the political arena, the only seemingly new perspective on taxation is a "flat" one; perhaps a fresh, three-dimensional view is needed.

On Saturday, January 27th, the HGS offered a seminar offering just such a fresh perspective. Kris Feder, Professor of Economics at Bard College, and Steve Cord, President of the Center for the Study of Economics in Columbia, *(continued on page four)*

Henry George News

published by

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HGS Board of Trustees Elects Officers

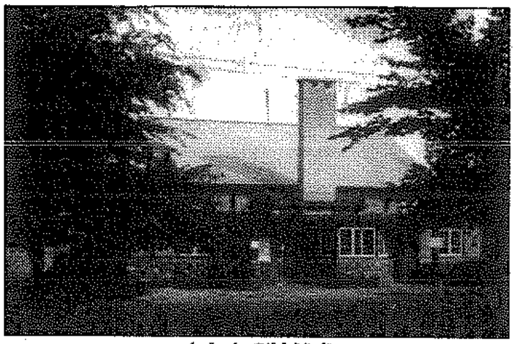
At the Annual Members' Meeting of February 15th, Dr. Oscar Johannsen was elected President of the Board of Trustees of the Henry George School. Irving Starer was elected 1st Vice President. Fryda Ossias was re-elected as 2nd Vice President. Constance Weinstein was re-elected as Secretary and as Treasurer. The Board expressed appreciation to outgoing President Edward Dodson, who did not stand for re-election for President, and for Stanley Rubenstein, who did not stand for re-election to the Board.

Georgist Gild Set for Second Arden Century

HGS-NY Assistant Director Lindy Davies traveled to "Delaware's Single Tax Town" on January 20th to adress a dinner sponsored by Arden's Georgist Gild. After a tasty vegetarian meal cooked by the Georgists, some fifty people stayed on — with enthusiasm, if perhaps some incredulity — to hear how "The Single Tax is Just Around the Corner." At every level of government, he said, developments are taking place that compel people to search for new ways to raise public revenue without killing economic incentives, social cohesion or environmental quality. Soon governments will realize that lasting progress is impossible without the public collection of land rent. Until then, Georgist educators must spread a clear understanding of the dimensions of the land question.

The message resonated strongly among the Gild's members. Arden was founded in 1898, as a demonstration of Georgist principles, and it still raises all its local tax revenue by collecting land rent without any levy on improvements. But, Arden has not had any local Georgist organization for many years, and the residents had become indifferent to the principles upon which the town was founded. "Everyone who wanted to hear about it had heard about it," said Arden Georgist (and Philadelphia HGS Director) Mike Curtis. "But eventually some new, young people came in, attracted by Arden's history and its charm — and they wondered how it came to be that way."

Mike reminds us that Arden's public revenue policy is not 100% Georgist these days, and it is a constant struggle to remind the town's elected Board of Assessors of their mission to assess the full rental value of Arden's land. Nevertheless, land use in Arden (and in it's latter-day spinoffs, Ardentown and Ardencroft), is very different from the



Arden's Gild Hall

surrounding Wilmington suburbs. As in many cities, almost a third of the land acreage is held out of use — but in Arden, it is not held at the whim of speculators but for the whole community's enjoyment. A village green, nature trails and open-air theatre help to create the unique ambiance of the village.

The Arden Club, which was founded at the turn of the century to facilitate social life among the town's diverse population of artisans, bon vivants and social reformers, is the umbrella organization for all the Gilds, or interest groups, that still bring Arden residents together. Unlike most of the Gilds, however, the Arden Georgist Gild is concerned with social problems as well as socializing. New *Progress and Poverty* classes are being organized by alumni of the '94 class, and membership in the Gild is growing.

George Collins Appears on TV Panel

Our Director was invited to participate in a live panel on tax reform that was broadcast over Newstalk Cable TV on January 11th. The other panelists were Roland Fink of Citizens for an Alternative Tax System (advocating a national sales tax), Irwin Schiff, author of *The Federal Mafia*, who claims that the income tax is unconstitutional and Americans need not pay it (but who has done time for tax evasion) and Mary McGuire of the National Association of Enrolled Agents, who favors reform of our current system. Discussion was lively and opinionated. Mr. Collins did his best to remind his fellow reformers of the classical Canons of Taxation, and to suggest to them a reform that, unlike what they were proposing, conformed to those old rules for a sensible tax.

Harvard Conference Explores Property and Values

by Vandana Chak

On December 1, 1995 Harvard Law School hosted a conference on 'Property & Values' sponsored by The Equity Trust, Inc. and the American Bar Association Commission on Homelessness and Poverty. I represented the Henry George School, along with Dr. Ernest Kahn, HGS Director in Sharon, Massachusetts.

The conference addressed the need for an equitable balance of public and private interests in the area of property. Participants could be easily divided into two groups: Academics (professors who were either teaching or writing on the subject of property) and Practitioners (officials of equity trusts and community land trusts).

In the morning session Joseph Singer, Professor of Law, Harvard University, started the discussion by stating that owners, neighbors and community form a triangle in any property dispute. In his view the concept of ownership is misleading to the understanding of property. Even the use of the terms "private" and "public" gives private ownership a bias. Property rights, he asserted, must be understood to be shared, limited and contingent.

Duncan Kennedy, a professor of law at Harvard law School, teaches courses on property, including "Housing and Policy." He is the author of *Neither the Market Nor the State: Limited Equity Housing Cooperatives as a Mode of Privatization.* He favors a structure in which property rights are more than mere tenancy, but less than full ownership. Public housing, he argues, should be managed in a decentralized manner, in which entitlements are entrenched to strike the right balance. He began with the premise that all property is for public purpose and that all must have access to it, implying that moral considerations are paramount in the debate over "takings."

Charles Geisler, a Professor of Rural Sociology at Cornell University, serves on the National Academy of Sciences Committee on Federal Acquisition of Lands for Conservation and the boards of the Equity Trust, Inc. and the *Journal of Rural Studies.* His books include *Land Reform, American Style* and *Property Cultures and Sustainable Landscapes.* The first land use law in the country, he noted, was used to fund educational activities. Then came the railroads who were behind the 'Recreation State' (such as Yellowstone). In discussing Takings, he stated the domain of individual rights is far more important than the distinction between private and public uses. Our examination of the right to housing should also be in this vein, he said.

C. Ford Runge, a Professor in the department of Applied Economics at the University of Minnesota who previously served on the staff of the US House Committee on Agriculture, gave a succinct view of the government actions affecting land and property values. He cited eloquently from empirical studies.

The afternoon session began with David Abromowitz, a partner at Goulston & Storrs, describing the development of the Rose Wharf in Boston which is an example of condominium ownership where individual condominium owner does not have a fee simple ownership right. The leases are long term and renewable. Who therefore catches the value at the end of term? There are issues of resale in such an arrangement that are much like the very reasons why community land trusts are set up: "capital gains" going to the collective rather than to individual owners.

Pamela Jones, an attorney and Executive Director of the New Columbia Community Land Trust, shared some practical experiences. The areas they serve are in marginalized black communities. Their first challenge was to convince the corporate and banking community to take their project seriously. Then they had to effectively educate the community they were serving about legal concepts of property and leasing.

Darby Bradley, also an attorney and President of the Vermont Land Trust, a statewide organization conserving open spaces and working farm and forest lands, described the rationale for the community land trust – to exist in perpetuity in order to provide affordable housing, effectively taking the community's land off the speculative market. He noted that land trusts can make use of multiple sources of funding, including government.

Frances Ansley, an Associate Professor of law at the University of Tennessee, spoke on the land ownership issues of Appalachia, where 90% of the land is controlled by absentee owners. A quarter of the land in the six states she has studied is used for agriculture and mining, but almost none of it is owned by the workers.

Kennedy, Geisler and Runge all recognized the theories of Henry George. Each stated that they fully supported his premise on land values, and it was the basis of their approach to the subject. Kennedy, however, held that the remedy suggested by George was not workable and that the sort of cooperative arrangements he described would be a better answer.

Editor's Note: Vandana Chak, a faculty member at the New York HGS, is an attorney and a graduate of Harvard Law School.

EarthSharing

Reconciling economics to people and the planet

Our Australian Georgist friends have created another outpost in cyberspace. Point your World-Wide-Web browser to

http://yarra.vicnet.net.au/~earthshr/

and you will reach the *EarthSharing* site, an interlinked grab-bag of ideas, commentary, resources and feedback on the land question in its many aspects. The home page, which sports the logo shown above, links to a baker's dozen of provocative categories. *What is EarthSharing?* outlines the basic philosophy and presents a succinct table comparing it to Socialism and Capitalism in such categories as Control, Personal and National Wealth, Freedom, Security, Environment and Taxation. Two famous essays, Mark Twain's "Archimedes" and Upton Sinclair on "The Consequences of Land Speculation," are presented. The extreme success of Denmark's experiment with national land value taxation in the late 50s is detailed. There is a comprehensive list of Georgist contacts worldwide, and a bibliography of works old and new on the Georgist philosophy and its ramifications.

The site does more than merely present information; it also invites feedback and discussion in its "Forum." Particpants (who can hail, of course, from anywhere on the globe) may post comments and reactions. Recent discussion threads include "Social reform and gender", "Centralized planning" and "You're right! Unemployment IS absurd!" All are free to participate, although the editors reserve the right to excise frivolous or malicious comments.

The *EarthSharing* site has much to recommend, but there is one aspect that I found annoying. I could not find any notice of the individual or group responsible for posting the site. Does the site purport to speak for the entire movement? It would seem not. Perhaps as more Georgist organizations stake their claims on the Web, this one will be somewhat relieved of its apparent burden of speaking for everyone. *–L.D.*

Taking on the Urban Land Question – in Theory and Practice

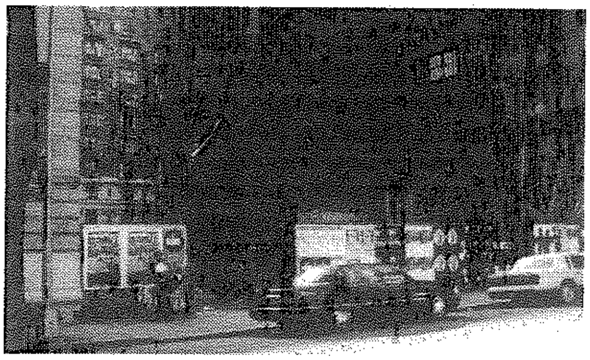
(continued from front page) Maryland, elucidated theoretical and practical approaches to sensible public revenue strategies.

Dr. Feder began by saying that land is a huge part of the country's economy – about two-thirds of this nation's 20 trillion dollars worth of assets, and "the rent of land, excluding buildings and other improvements, is about 60% of that figure." This figure does not include the economic value of natural resources and government owned land.

"Rent largely escapes federal taxation," Dr. Feder stated. "First of all, real estate enjoys very special tax breaks that other parts of the economy do not. One type of special write-off is the depreciation allowance." This write-off has always been an especially generous one – much above the wear-out that buildings actually undergo. And any new owner "gets to depreciate the building all over again.... Land as a component of real estate is chronically under-estimated and pays virtually no federal income tax what-so-ever."

The upshot is, real estate, and land in particular, do not pay much in the way of taxes.

The depreciation allowance, Dr. Feder pointed out, "is the mechanism by which income is converted into capital gains." If, in other words, the amount of depreciation write-off exceeds the actual depreciation of the building's market value, that extra value goes to the landlord as a capital gain when the real estate is sold. So, don't capital gains taxes capture part of the economic rent of land? Yes, some, Dr. Feder said – but "they are low and there is always talk of making them lower." Plus, "there are all kinds of exemptions and exclusions that mean capital gains escape taxation, virtually altogether. If you average in both depreciation and special exemptions, you get a figure that is, on average, about 7%. For example, homeowners who sell their house and buy a new one within a year, can exclude up to $150,000 in capital gains.



This lot, spanning through the block from 28th to 29th Streets, between Fifth and Madison Avenues in Manhattan, is actually two lots – vacant since 1986 when the convent and chapel they once contained were razed. One fourth of the property is owned by St. Leo's R.C. Church and is tax-exempt. The rest is still owned by St. Mary's Convent, but a developer, Richard Calico, owns an option on the property. Market value of the entire two-parcel lot, according to the NYC Assessor, is $6,205,000. Annual tax liability of the non-exempt portion is $208,768 – for an effective tax rate of 3.36%. (For it is unlikely, after all, that the exempt portion of this parcel will be sold separately.) Although the neighborhood is not economically robust – a S.R.O. hotel is nearby – the lot is very convenient to bus and subway transportation, and many midtown attractions. Across 29th street sits the landmark Church of the Transfiguration, the famed "little church around the corner."

If you are over 55, you have a blanket exclusion from capital gains on your home. Major commercial investors [such as insurance companies and pension funds] – who own the largest chunks of real estate – are excluded from capital gains tax. Foreign investors also enjoy a similar tax exclusion. The upshot is, real estate, and land in particular, do not pay much in the way of taxes."

Dr. Feder then got to her main point. "I believe that rent of land is the most equitable tax base we could envision. First of all, land value is not given by the landowner. The natural resources themselves are a "gift" and the social value of land is mostly created by government, which builds roads, schools, transportation – all those things that make people want to come and live in a particular area in the first place. If we were to find a way to publicly collect that rent through our democratic system and distribute it in a reasonably fair way, it would be a way to distribute the natural opportunities among individuals, among generations – even among nations, in a more peaceful world."

Prof. Steve Cord

Further, land value taxation confers efficiency benefits, said Dr. Feder. "Unlike all the other taxes we have, a tax on rent does not penalize production. We tax sales, we tax income, we tax wages – all these taxes are essentially penalties for being a productive person. But a tax on rent, or on the value of land, has as its base simply the opportunity cost of holding on to a piece of land, regardless of how its used. The tax is not contingent upon productivity, and is therefore not a deterrent to being productive." Contingent to this fact, Dr. Feder observed that a significant amount of land value tax would channel private savings into capital formation. "Why? Because when you invest you want to find something that will hold its value, in this case either land or fixed capital. And if land rent is publicly collected, more savings will go toward capital formation – ultimately lowering the price of acquiring capital." Thirdly, a tax on land rent would lower land prices, easing credit restrictions and making land more accessible. "Ultimately, this would allow common people to compete with the rich and large corporations on more even footing for the productive use of land."

Of course, a higher land tax would reduce the incentive for speculating in land. "Land speculation is obstructionist; it produces a sort of leap-frog, "scatter-shot" development as developers seek out land not held by speculators. Many commuters may pass miles and miles of derelict, unused land on their way to and from work." Using a land tax to spur urban renewal is the easiest and most efficient way of solving many of our cities' chronic problems, according to Dr. Feder.

In conclusion, Dr. Feder proposed a few policy ideas. One, "capital gains tax cuts do not reward investment, they reward land speculation and real estate hoarding. We should cut true capital gains taxes and not land gain taxes. Secondly, we shouldn't allow buildings to be depreciated over and over again. The real estate industry is the most powerful lobby in the country" and it is their power which is the strongest inhibiting factor to land policy reform. "Thirdly, we should do away with the tax deductibility of mortgage interest; such interest is the main reason why our society is building a huge pyramid of debt." Dr. Feder summed up by saying that "these changes alone could eliminate the federal deficit, turning deficit into surplus. To begin to do that, we need a land value study, at the federal level, that would asses land value for the entire country. At the moment, we have no reliable statistics to point to the amount of value that's really out there."

Prof. Steve Cord was next up to speak, to address his specialty: the issue of two-rate property taxation. Dr. Cord, drawing on years of experience dealing with local governments, gave a practical and down-to-earth guide on how to approach municipal taxing authorities. Every time he is in Washington, DC, he said, and begins to talk about the land tax, "they don't want to hear it. They tell me that real estate taxation is strictly a local issue. Well, it isn't. For a good part of this country's early history, the federal government taxed land directly, as Henry George pointed out." However, he went on to say, at least they will listen at the local level.

Dr. Cord reported that there are 16 cities in America and 700 cities world wide that tax land at a higher rate than improvements. The two-rate system, Dr. Cord believes, is the only way presently to move toward the single tax. People first need to be educated to the value of a land tax; the only practical way to do so is gradually, by showing the benefits of an incremental change from a tax on improvements to a tax on land. Philosophical approaches are not efficacious, he said. "They don't want to hear it; they don't have time. They only want empirical results. And don't present it as a change in assessment; present it as a change in tax rates. The last thing they want is a challenge to their methods."

Dr. Cord said it would be "desperation" and not philosophy that will eventually make politicians wake up to the necessity of a land tax. "I cannot see New York or any city prospering in the long run with the present tax system," said Dr. Cord.

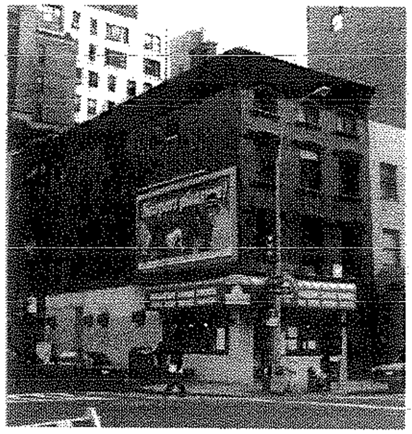
This winter the Henry George School is offering a new course that tries to find the root causes for many of these problems – as well as offer some solutions. Team-taught by George Collins and Lindy Davies, *Taxes, Real Estate and Urban Decay,* offers a hands-on, workshop experience and includes projects designed to demonstrate the debilitating effects of land speculation in New York City – and the rejuvenating potential of a shift to LVT.

According to Mr. Davies the new class "will give our alumni a way to apply Georgist theory to today's economy using material culled from real-world property assessment." Students will be able to test the insights of Henry George regarding the real role of land in the economy, using such practical tools as Prof. Cord's formulas on how to shift to a two-rate (or land only) property tax.

It has always been the intention of this school to give our students something more than just philosophy.

"We do not have the resources available to do a broad study," continued Mr. Davies, "so we have come up with a way to probe the problem in depth. Our students are going into their own neighborhoods and analyzing specific properties, using the techniques of real estate assessment, informed with Henry George's ideas. Our goal is to create a portfolio of researched sites – which we can publish and use in other classes – and will include a study of how the various areas would be affected by a shift to Land Value Taxation." Mr. Collins added: "It has always been the intention of this school to give our students something more than just philosophy. This class offers a hands-on methodology that shows our students a real-world application of land value taxation. We hope to give our students something that is both contemporary and compelling."

The class, composed of twelve members who have completed at least two of the school's courses in *Principles of Political Economy,* is hard at work. One field trip to the Manhattan Assessor's office has taken place, and others are planned. Students have researched, measured, photographed, and (in some cases) interviewed neighbors of some four dozen New York sites thus far.



Here is a classic piece of underused real estate, right in the middle of an up-and-coming neighborhood. Except for the diner on the ground floor, this building on the southeast corner of 28th St. and Lexington Avenue is completely unused. Located close to transportation, shopping at 34th St., and "Hospital Row" nearby to the east, this neighborhood has had much high-rise construction in recent years. It also has its share of vacant lots and "taxpayers." This property enjoys New York City's "8-30% Limitation," ensuring that taxes will rise very gently, even in a galloping market. Assessed market value of land & building is $560,000, of which $213,000 is (nominally) land value. Tax bill for '96 is $23,709 – a seemingly hefty sum for one luncheonette to raise.

Meanwhile, on the heels of the Regional Plan Association's report, the *Times* on February 19 bannered a front page story headlined "Region's Economy in Fundamental Shift; Lag in Recovery Prompts Fears of Decline." The article painted a bleak picture of the area's current economic stagnation: "Through the darkest days of the recession in the late 1980s and early 1990s, there was a certain tenet of faith in the New York region: Like the seasons, the business cycle was eternal, and when the downturn was over old-fashioned growth would return." But while that faith may have proven true for much of the country, the New York area "has recovered only about a third of the 770,000 jobs it lost, and shows no sign of quickly regaining the rest."

While the economy is no longer sinking, "the recovery has become a puzzling economic phenomenon in its own right.... Economic growth since 1992 has been weaker, spottier and downright stranger than anything before it, because so many of the region's industries have been fundamentally rearranged and in some cases seriously eroded." Attempting to account for these profound shifts, the *Times* pointed to "pressures compounded by fierce competition from other parts of the country and the world where labor costs are lower and where governments spend lavishly to attract new business."

Layoffs are happening in record numbers and "have swept the once inviolate public sector as cities and states confront swelling deficits. In addition, Republicans are now in power in New York City and the three surrounding states, and all are on a crusade to cut government spending in the hope that lower taxes will spur business expansion and lure new companies. But so far that has not happened." The picture gets bleaker still. Referring back to the Regional Plan Association's study: "Perhaps even more unsettling, the study found that the New York region's biggest industries – financial services, the electronic media and publishing, the arts and tourism, health services and fashion – suffered steep losses in their share of the national and global markets. On average, it said, the industries' market share shrank 25 per cent by 1992 from 1982...'We might limp along for another decade,' said Claude Shostal, president of the Regional Plan Association, 'but if nothing changes we could be facing an economic abyss.'" *– D.D.*

Habitat II Agenda to Include Calls for LVT

by Pat Aller

The United Nations will hold its final conference of the century, Habitat II, this June in Istanbul, Turkey. Since it deals with land and housing, it is especially important for Georgists. Habitat II is a unique UN gathering in several ways. Its global action plan will incorporate summits – on environment, human rights, population, social development, and women – in language of deeds, not just promises. Also, the NGO community, which includes businesses, bankers and many other groups interested in housing and infrastructure, has played a more active role in the Habitat II agenda than in previous conferences.

More than a billion people are badly housed or homeless. Some are the rural poor; some are among the millions who leave rural areas hoping for work in cities; others are refugees of war or political upheavals. Soon, more than half the world's population will live in cities – most of them in poverty.

Shelter is a basic human right (although the US opposes including a universal right to shelter in the Habitat II document) and NGOs regard Habitat II as more than a discussion of urban and rural renewal. Many, looking for the roots of urban chaos and poverty, see the economic growth patterns brought about by transnational corporations driving wedges into their already poor communities. In many cases the "higher" wages in new manufacturing jobs end up buying less because of inflation stimulated by the new investments themselves. Despite financiers' claims to heed grass roots needs, the "structural adjustment programs" of the World Bank and other global lenders damage or destroy traditional ways of farming and doing business by insisting on large-scale, cash-oriented enterprises.

NGOs see citizens and economies becoming more dependent than ever. More and more civic groups advocate decentralization, enabling local governments to get a fair return from business to help pay for physical and social infrastructure. The services needed are very basic indeed: better water, sewage and utility systems, public transit, health care and education. These depend on economic changes that create jobs, at equitable pay – and provide for sensible public funding.

Editor's note: At the end of the Feb. 9th program, Pat Aller was called to the fore by her NGO colleague, Alanna Hartzok, who presented Pat with a surprise gift in appreciation for Pat's tireless work on behalf of the International Union. She and Alanna have been working to ensure that the document adapted at Habitat II will incorporate potent affirmations of the need for public collection of land rents. Pat is also a member of the NGO Committee on Shelter and Community. Her efforts have been integral to the inclusion of references to public collection of land rent that appear in the draft document.

Sections in the Draft Habitat II Document Referring to Land Rights

49. (d) apply public policies, including fiscal policies and planning policies, to stimulate sustainable shelter markets and land development;

52. (d) review and adjust, when necessary, the legal, fiscal and regulatory framework to respond to the special needs of the poor and low-income population;
(e) periodically review shelter finance policies and systems, taking into consideration their impacts on the environment, on economic development and on social welfare; and
(f) promote and adopt policies which coordinate and encourage the adequate supply of key inputs required for the construction of housing and infrastructure, such as land, finance, building materials, etc.

54. (e) apply appropriate fiscal measures, including taxation, to promote the supply of housing and land;

56. (d) apply transparent, comprehensive, easily accessible and progressive taxation and incentive mechanisms to stimulate efficient, environmentally sound and equitable use of land; exploit the full potential of land-based and other forms of taxation in mobilizing financial resources for service provision by local authorities;
(e) consider fiscal and other measures, as appropriate, to prevent hoarding of vacant land for speculative purposes, and thus increase the supply of land for shelter development;
(f) develop land information systems and practices for land-value assessment;
(h) take advantage of innovative instruments which capture land value gains and recover public investments;

80. (c) develop fiscal incentives and land use control measures, including land-use planning solutions for a more rational and sustainable use of limited land resources;

112. (a) formulate and implement fiscal policies that support sustainable development and stimulate urban employment.

In the Line of Fire: the UN at 50

(continued from front page) and the NGO representative of Peace Links, has attended a number of UN Conferences. This seminar had come, she noted, during the period of intense activity in preparation for the upcoming Habitat II conference. Delegates from thousands of NGOs were meeting in 28 caucuses, negotiating terms for the official language to be adopted in the conference's document. This conference will mark a breakthrough in the influence and viability of the NGO movement; the efforts of NGOs have been instrumental in ensuring Habitat II's unprecedented emphasis on action, not just discussion. Also, groups representing women, the aged, youth, the disabled, and planners, will contribute separate analyses.


James Olson

Ms. Zanes spoke on the major recent conferences, including those on Human Rights (Vienna, 1993), Population (Cairo, 1994), the Social Summit last year in Copenhagen, and of course the Women's conference in Beijing – about which all manner of myths and rumors were circulated, both in China and the US. The influence of these conferences, she affirmed, has been real and vital, although it has come about in gradual, incremental steps.

James Olson, Vice President of National Programs for the UN Association of the USA, said that after his colleagues' glowing reports, it unfortunately fell to him to give the bad news. "This is a critical time in the relationship between the UN and the US. This country is in a process of selective withdrawal from the UN." The irony of this, Olson said, is that the UN generally has a high level of support in the US population; people generally report greater approval of the UN than of the US Congress, and support is higher here than in Western Europe.

Unfortunately, although support for the UN is broad, opposition to it is deep and focused. A bill to withdraw from the UN, introduced by Rep. Scarborough of Florida on the date of the 50th anniversary of the adoption of the UN charter, now has twelve cosponsors. While the bill has little chance of passing, Olson said, it shows the level of antagonism toward the UN in some circles, particularly among new right-wing members of Congress (and supporters of USA-first candidate Pat Buchanan). Meanwhile, the US continues to refuse to honor its commitment to funding the UN; half of the $3 billion in unpaid dues is owed by the US alone. Without these funds, the UN faces a severe financial crisis. Even as work goes on toward the pivotal Habitat II conference, a subcommittee is meeting to try to find some way for the UN to meet its payroll for the coming year.

TEACHERS' CORNER

What We're (Still) Talking About

It's not often that our readers respond as thoroughly as did Mr. David Byrnes, Executive Secretary of the Sequoyah Institute of Civil Values in Riverside, California, in the thoughtful letter that follows:

I read with interest about the problems of educating students on the proper definition of wealth in political science terms, and the habitual thought-patterns of students who revert back to error as soon as they go out of the classroom. One problem is semantics. "Wealth" is an ambiguous term. Even "friends" and "good health" can and should be called a legitimate form of wealth by poets and philosophers. The same is true of "property." We Georgists must be careful not to use the term "property" when we are talking about taxes because the word can refer to either land or structures, or both. It is not a safe word and should be avoided in economic discussions.

On the other hand, you might be able to clarify the problem with your students if you used the relationship which Harry Gunnison Brown employed when teaching at Missouri. Brown referred to money as "tickets" or "claim checks" on real wealth, readily exchangeable (in a market society) for the real thing. Money could also be compared to a title of ownership — which has "value" and represents wealth, but is not the real thing, only its paper representation designating certain legal rights and obligations.

But most importantly, I wish to help you define "profits" as something much more than an awkward component of the three factors of production. Profits are closely related to the market economy. This is because an entrepreneur will (if legitimate) procure varying amounts of land, labor and capital, paying the going market price for each factor. Using managerial and innovative skills in combining those three factors, the entrepreneur will produce a product or service which is so desirable that consumers will willingly buy the output for a market price that is greater than the sum of the input factor costs. The amount of the sales price remaining after paying for all input factors is the true economic "profit."

The entrepreneur has increased the total wealth of the community, for consumers are willing to pay more for the entrepreneur's output than for the raw factors that went into it. If there are no profits, there will be no economic progress; the outputs of production will be worth no more to consumers than were the raw materials that were combined to form the outputs. Entrepreneurs will have labored at management — yet no one will be better off.

The entrepreneur can increase his or her profits by means legitimate and illegitimate. He can procure any factor for less cost by skillful shopping — or be deceitful negotiations or theft. He can use less of the factors by managerial skill — or by reducing quality. He can obtain a higher sales price from the demand of eager consumers, or by means of deceitful advertising and merchandising. And of course, he can enjoy the use of land or resources without paying for them because he owns them, in which case he is only cheating himself.

The definitions of profit that are employed by accountants, the IRS, corporate promoters and small businessmen are all imperfect. Only the definition I cited above, in which factors of production are acquired at a true market value, and the output is sold at a legitimate market price, allows the true expression of profit. And obviously the realization of profits is a highly precarious task. Properly calculated, the average profit of the Fortune 500 might average 3 to 4% even today, because they should be charging themselves for the interest costs of stockholder equity and for the replacement cost of capital goods. Almost all farmers would lose money each year because the imputed rent on their land would be greater than the net profits they report through their accountant.

Profits will never sink to zero even in a state of perfect competition — because when they do, there is no point in operating a business. Even at 1 or 2% profit, the entrepreneur is better off working for someone else.

Apparently, most of the public has a gross misconception of the size of corporate profits. Sometimes they confuse gross profit with net profit. Other times, they read that a corporation's profits are "up 33% for the year" when in reality they are only 4% compared to last year's 3% — thereby doing a great disservice to the principle of free enterprise. Ignorant laborers, activists and liberals who seize upon that 33% figure can never be dissuaded of this error.

David McClelland noted (in *The Achieving Society*) that at the peak of the industrial revolution in England, average profits were about 5% and the highest profit record he could find was a temporary 15%. These figures came from data that managers and owners reported to their bankers, whom they presumably wanted to impress. And, as always, profits then and now are never large enough to fund the expansion of a business which is doing well.

Lindy Davies replies:

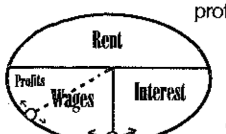
Mr. Byrnes reminds us that "wealth" is an ambiguous term. Indeed it is, for poets, philosophers and most economists — and one of our most important missions is to clarify its meaning. His reminder of Harry Gunnison Brown's treatment of money is appreciated. But strangely, most students have an easy enough time grasping that money is not wealth. Burn a hundred-dollar bill: is there less wealth in our economy? The most persistent confusion, though, is one that seems equally clear at the outset: the fact that **land** is not wealth.

If I understand Mr. Byrnes correctly, the entire return that he calls "legitimate" profit for the entrepreneur — the payment for management and risk-taking — would go in the category of wages, in our three-factor model. Labor is the active factor in production; clearly management and risk-taking are not undertaken by land or capital. But for Mr. Byrnes, and most contemporary economists, the inputs of entrepreneurs are different enough from those of the laboring masses to place them in a separate *(continued on back page)*

Entrepreneurship and Input-Balancing

Henry George argued that the essential distribution of wealth is between land and labor. Capital is merely a special class of labor, in a way: labor that has congealed into labor-saving material. So, the returns to labor and to capital tend to seek an equilibrium; both are called for in production. (And, since both need land to produce, the returns to both Labor and Capital rise and fall with the margin of production.) The classic HGS lesson materials illustrate this notion like this.

The pendulum between Wages and Interest swings back and forth as the returns to labor and capital move toward equilibrium. If we consider profits as a separate category, we must remember that what Mr. Byrnes calls "legitimate" profit imputes away the returns to land, capital and monopoly. What's left is what Henry George referred to as "wages of superintendence." Low-risk production labor and high-risk entrepreneurial labor also tend toward an equilibrium. Both are needed for progress; therefore, one will not long prosper at the other's expense.



Teacher's Corner

(continued from page 7) category. That division makes a certain amount of sense – as long as we realize that it is a sub-categorization. Labor and entrepreneurship are far more similar than, say, labor and land.

Mr. Byrnes is careful to stress that he is referring only to "legitimate" profits in competitive markets. Now, if "property" is an unsafe word that we ought to shun, what can we say of "legitimate"? For Mr. Byrnes, it appears that legitimacy is a function of honesty. How, though, is one to judge whether (or to what degree) a manufacturer has "deceitfully" lowered quality or advertised falsely? Is there an objective standard for such things? For Henry George (and other market-oriented economists), beyond a reasonable public interest in truthful labeling, advertising and marketing add to a product's value and the buyer should beware. Legitimate profit is any return from production; it is illegitimate to collect what has been produced by others, whether by individuals or by the whole community. For George the boundary of legitimacy is hardly ambiguous at all.

It has been clearly shown that a great deal of today's economic inquiry makes the mistake of ignoring or obscuring the difference between land and wealth. Once that fundamental distinction is lost, it is easy to consider land simply as one input to production, among the many inputs that entrepreneurs manage, in order to realize those profits which are so essential to progress. This tendency leads, as my article noted, to the specious (but frequent) claims that land rent is negligible in a modern economy. What else could be happening to it? It doesn't show up as wages or interest; it must be masked as profits.

Will profits never sink to zero even in a state of perfect competition? Well, most agree that "prefect competition" is a theoretical ideal that real economies can never reach. But remember that in our three-factor conception of things, profit is a subset of wages. If, let's say, the land monopoly were eliminated, thus enhancing competition, return to labor in general would rise, as would the return to capital. Risk, in new enterprises, would be lower – as would the rate of profit – but fewer businesses would fail.

Mr. Byrnes is wary that do-gooder types will miss the vital contribution that entrepreneurs make to a dynamic market economy. His concern is well-founded and Henry George certainly shared it. Nevertheless, I'll stick with the three-factor model in my *Fundamental Economics* class. We need the clarity of George's analysis before we tackle the muck of modern economics.

A Special Thanks to Contributors to the Henry George School for 1996

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